



*The Governor's 2016-17 Recommended Budget
for the Department of Health and Human Services*

*Presented to the House Appropriations Subcommittee
on Health and Human Services*

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Overview of Presentation

- The State invests more than **\$5 billion** in the programs and services administered by the Department of Health and Human Services - 23% of the State's total General Fund budget.
- Short session budget adjustments recommended for DHHS invest in addressing critical issues currently facing our state – opioid addiction, chronic and persistent mental health and substance use disorders – which directly impact our children, our families, our society and the economy.
- In the current fiscal year, the Medicaid program is anticipating a cash surplus. The 2016-17 Medicaid forecast and rebase returns \$318 million to the General Fund.
- Medicaid performance is reflective of significant investments in state funding and demonstrated improvements in forecasting, planning and managing the program.
- Recommendations represent a thoughtful, collaborative DHHS.



Short Session Objective

Modify the second year of the State Budget to address changes since the biennial budget was enacted, primarily:

- *Revenues / availability (statewide considerations)*
- *Populations served, particularly in enrollment driven programs*
- *Unforeseen events*
- *Emerging issues / policy responses*

Significant DHHS events since the 2015-17 Budget was enacted:

- *Governor's Mental Health and Substance Use Task Force*
- *Federal Child Welfare Review*
- *Zika Virus*
- *Annual updates of budget to actual performance of enrollment driven programs (Medicaid, Health Choice, Adoption Assistance)*



Department of Health and Human Services: Current Baseline General Fund Appropriations

	2015-16 Enacted Budget	2016-17 Enacted Budget	Change Over 2015-16 Enacted
Central Management and Support	\$122,466,586	\$130,033,253	\$7,566,667
Aging and Adult Services	43,815,337	43,815,337	0
Child Development and Early Education	232,462,829	243,033,976	10,571,147
Public Health	141,377,220	148,298,428	6,921,208
Social Services	183,183,263	185,533,263	2,350,000
Medical Assistance – Medicaid	3,736,574,943	3,916,237,272	179,662,329
Medical Assistance – Health Choice	12,556,342	746,758	(11,809,584)
Services for the Blind, Deaf and HH	8,173,207	8,173,207	0
Mental Health/DD/SAS	596,082,420	537,861,308	(58,221,112)
Health Services Regulation	16,105,247	16,110,674	5,427
Vocational Rehabilitation	37,752,132	37,752,132	0
TOTAL HEALTH AND HUMAN SERVICES	\$5,130,549,526	\$5,267,595,608	\$137,046,082

NC Office of State Budget and Management, Source: BD 307 Report

DHHS Revised Recommended Budget: Summary of Proposed Changes Fiscal Year 2016-17

	2016-17 Enacted Budget	Expansion	Adoption Caseload Adjustment	Medicaid & Health Choice Rebase	Net Change	2016-17 Recommended Budget
Total Requirements (Expenditures)	\$20,169,173,124	145,841,138	(\$1,333,333)	(\$654,410,586)	(\$509,902,781)	\$19,659,270,343
Less: Receipts	14,901,577,516	50,508,887	(333,333)	(286,001,822)	(286,001,822)	14,615,575,694
General Fund Appropriation	5,267,595,608	95,332,251	(\$1,000,000)	(\$318,233,210)	(\$223,900,959)	5,043,694,649

Net Change in the DHHS Budget is the sum of expansion recommendations
and adjustments to enrollment based programs.

Expansion Highlights

Improving the Lives of People with Mental Illness and Substance Use Disorders

- Invests \$30 million to implement the recommendations of the Governor's Task Force on Mental Health and Substance Use, including transitional housing, case management, mental health first aid training, child crisis centers and tools to combat the heroin and opioid epidemic.

Expanding Medicaid and State Services for Older Adults, Including Those with Alzheimer's

- Provides \$3 million to expand Medicaid services for older adults, including those with Alzheimer's disease, by adding 320 new slots to the Community Alternatives Program for Disabled Adults.
- Increases funding by \$1 million for family caregiver support services, including respite care for caregivers.



Expansion Highlights

Expanding Medicaid Services for People with Developmental Disabilities

- Invests \$2.5 million to expand Medicaid services for people with developmental disabilities. This investment supports an additional 250 Medicaid Innovations Waiver slots providing the needed services to help individuals with developmental disabilities live successful lives in the community.

Investing in Education and Safety of Children

- Continues the commitment to providing high quality early childhood programs by investing \$4 million in Pre-K to serve up to an additional 800 at-risk 4 year olds, bringing the total budget to \$148 million.
- Invests \$8.6 million to implement a Federal Improvement Plan to strengthen the state's child protection system.

Preparing North Carolina to respond to the Zika Virus and Other Vector Borne Diseases

- Provides \$750,000 to support surveillance across the state to identify and track the primary carrier of the Zika virus and other vector borne diseases



Mental Health: Governor's Task Force on Mental Health and Substance Use

- Created by Governor McCrory's Executive Order #76
- To better serve those living with mental illness and substance use disorders
- Twenty-four-member committee chaired by Secretary Brajer and Chief Justice Martin and includes members of the General Assembly, the provider community and the public

Task Force Recommendations

- **Emergency/Transitional Housing, \$3 million**

Master Lease arrangement with lease held by LME or contractor to create housing capacity

Housing for those with mental illness transitioning from emergency departments and correctional facilities

Anticipated: rental cost per unit, \$10,000; number of units 280; and number clients served, 840



Mental Health: Governor's Task Force on Mental Health and Substance Use

- **Case Management for Youth and Adults, \$13 million**

Comprehensive Case Management for clients with complex behavioral health issues

Supportive Case Management for less complex clients with short-term needs during times of transition

Anticipate serving between 1,800 and 2,300 clients per year

- **Opioid Treatment and Substance Abuse Initiatives, \$9 million**

Outpatient and residential treatment, including Medication-Assisted Therapy (MAT), which combines behavioral therapy and drug treatments

Also includes training on the controlled substances reporting system and safe proscribing and alternative methods of pain management

- **Therapeutic Courts and Diversion, \$5 million**

Funds therapeutic courts (e.g., mental health and veterans) and community based services

Law Enforcement Assisted Diversion (LEAD) – pre-booking jail diversion program that trains LEOs to divert low level drug offenders to services and treatment; competitive application process



Mental Health: Dorothea Dix Trust Fund (S.L. 2015-241)

- Creation of the Dorothea Dix Hospital Property Fund (Section 12F.7.(b))
- Legislative intent to use proceeds to increase availability of short-term behavioral health beds. Funds only available upon an act by the General Assembly (Section 12F.7.(a), (b))
- Required plan to use proceeds to produce 150 new beds, including the construction of new or conversion of existing bed capacity; rural hospitals and equitable distribution (Section 12F.7.(d))
- Net proceeds, \$49M

The Governor's budget recommends seven initiatives investing a total of \$20.2 million from the Dorothea Dix Trust Fund for community mental health services



Mental Health: Dorothea Dix Trust Fund Recommendations

Rural Behavioral Health Bed Capacity, \$12 million NR

- RFP process for the construction of new or conversion of existing hospital bed capacity for behavioral in-patient care
- Increase bed capacity projected to be 64-150 depending how the capacity is created

Psychiatric Advanced Directives, \$300,000 NR

- Education and training efforts for consumers and providers to develop individual's treatment preferences
- Eases clinical decision-making and more effective treatment

Mental Health First Aid, \$2.5 million NR

- Training for the community to recognize symptoms of mental illness and render assistance
- \$170 per trainee equates to approximately 14,700 trained MH first aiders

Diversion Grants, \$3 million NR

- Grants to counties participating in the *Stepping Up Initiative*, a national effort of the National Association of Counties to divert those with mental illness from jail to treatment
- Grants are to encourage community collaboration of local mental health and justice systems



Mental Health: Dorothea Dix Trust Fund Recommendations

Workforce Capacity to Serve Deaf and Hard of Hearing with Mental Illness and Substance Use Issues, \$150,000 NR

- Six scholarships for graduate education for individuals proficient in ASL, e.g., MSW
- Recipient must agree to service commitment

Child Facility Based Crisis, \$2 million NR

- Lack of child inpatient treatment capacity results in ED visits; increased distance traveled associated with longer length of stay
- RFP process to provide start-up funding for two 16 bed facilities for child crisis in-patient services

Veterans' Housing, \$250,000 NR

- Collaboration with Division of Military and Veterans' Affairs and Institute of Rapid Re-Housing to train teams to help end veterans' homelessness



Summary of Governor's Recommended Community Mental Health and Substance Use Investments

	Total Requirements	Receipts	Appropriation
<i>Emergency/Transitional Housing</i>	\$3,000,000		\$3,000,000
<i>Case Management</i>	\$13,000,000		\$13,000,000
<i>Opioid Treatment and SA Initiative</i>	\$9,000,000		\$9,000,000
<i>Treatment Courts</i>	\$5,000,000		\$5,000,000
<i>Psychiatric Advance Directives (DD)</i>	\$300,000	\$300,000	
<i>MH First Aid (DD)</i>	\$2,500,000	\$2,500,000	
<i>Diversion (DD)</i>	\$3,000,000	\$3,000,000	
<i>DHH Scholarships (DD)</i>	\$150,000	\$150,000	
<i>Veterans' Housing (DD)</i>	\$250,000	\$250,000	
<i>Child FBC (DD)</i>	\$2,000,000	\$2,000,000	
<i>Rural Bed Capacity (DD)</i>	\$12,000,000	\$12,000,000	
Total	\$50,200,000	\$20,200,000	\$30,000,000

Mental Health: Investment in State Delivered Health Care

Broughton Hospital, Portion Payable, \$1.9 million (annual \$2.7 million); 36 FTEs

- New hospital construction to be completed June 2017
- Staff transition and training, July-September 2017; client transition begins October 2017
- Bed capacity will increase from 297 to 382
- Recommended positions include IT, clinical, and electronic technicians
 - 16 FTEs effective July 1, 2016
 - Administration (3) – manage transition and recruitment
 - Systems – IT and mechanical/electrical (10)
 - Clinical staff (3)
 - 20 FTEs effective October 1, 2016
 - medical records and staff development (9)
 - Clinical staff (11)



Public Health

Zika virus is a mosquito-borne virus currently causing outbreaks in many countries. The virus is spread primarily through the bite of an infected Aedes species mosquito, and CDC reports that a Zika virus infection during pregnancy can cause a serious birth defect called microcephaly, as well as other fatal brain defects.

CURRENT STATUS IN STATE AND NATION

- DHHS Public Health website reports as of April 26, there have been 11 travel-associated cases of Zika in North Carolina, but no locally acquired vector-borne cases in either the state or nation.

DIVISION OF PUBLIC HEALTH RESPONSE

- Contracted with mosquito experts at state universities (ECU, WCU, and NCSU)
- Established a coordinated response within DPH and implemented a Public Health Incident Management Team in early February.
- Distributed \$50K in aid-to-county funding
- In process of filling two entomologist positions
- State lab developing public health capacity for clinical testing



Public Health

GOVERNOR'S RECOMMENDED BUDGET:

- \$750,000 in recurring state appropriations to create the infrastructure for mosquito surveillance (trapping and testing), control and education. The expansion:
 - Provides \$355,000 in aid-to-county funding
 - Funds four new FTEs — three doctoral level entomologists and one position in the state lab — to direct the effort.
- Builds the State's infrastructure to respond to Zika and other vector-borne diseases.
- Supports this expansion because disease surveillance and prevention are core public health functions.



Public Health

INVESTMENT IN LOCAL HEALTH DEPARTMENTS (LHD): \$17.0 million (NR)

- 85 local health departments (LHDs) across the state that serve about 550K residents every year
- Need is due to a change in Medicaid cost-settlement methodology
- This expansion supports the local health departments as they adjust to new Medicaid cost settlement rates.

INVESTMENT IN CHILDREN'S DEVELOPMENTAL SERVICES AGENCIES (CDSA): \$2.5 million (NR)

- The Children's Developmental Services Agencies are regional agencies that serve children who have developmental disabilities between the ages of 0 and 3.
- Need is due to a change in Medicaid cost-settlement methodology
- This funding is necessary to ensure that CSDAs can continue to provide services to the state's most vulnerable citizens.

INVESTMENT IN THE STATE LAB OF PUBLIC HEALTH (SLPH): \$6.8 million

- The State Laboratory of Public Health is a nationally renowned, state-of-the-art facility that performs more than 125 clinical tests and 65 environmental tests.
- State law establishes the Newborn Screening Rate at \$24/screening. The actual cost of administering the test is \$44. This request covers the cost and replaces lost federal Medicaid funds.



Child Welfare

Child Welfare Services

- Child Protective Services
- Foster Care
- Adoption
- Family Preservation and Support

These critical services provide for the protection and care of children who are suspected to or have been abused and/or neglected.

Federal Review

The US Department of Health and Human Services, Administration of Children and Families, Children's Bureau in collaboration with the Division of Social Services child welfare staff conducted NC's third Child and Family Services Review.

- Final report was received February 2, 2016, and the review's focus included:
 - Reviewing NC's performance data;
 - Conducting a statewide assessment
 - Case-level review; and
 - Interviews with tribal representatives, state stakeholders and partners.

North Carolina's final report indicated the State was not in substantial compliance and requires the State to enter into a two-year Program Improvement Plan.



Child Welfare

Action Plan (Key Activities)

Convening of key stakeholder groups to develop NC's program improvement plan

Support from the Administration of Children and Families to develop NC's program improvement plan

Response by the Administration to identify resources that could be immediately redirected towards increasing the Department staff capacity to begin to address some of the immediate concerns.

Currently efforts continue to finalize NC's program improvement plan. This is a participatory and collaborative process with the Administration for Children and Families and State and Local Stakeholders. The plan will include agreed upon goals, strategies and the specific activities that will be completed in order to improve outcomes for children and their families.

The Department anticipates having a completed program improvement plan submitted by May 2, 2016.

GOVERNOR'S RECOMMENDED BUDGET:

3 expansion items, with investments focused on:

- Building Capacity around Data Analytics
- Training for child welfare staff and leadership
- Increased funding for in home services for children and their families
- Technical Assistance to counties Foster Care
- Increased capacity for more timely Child Fatality Reviews.



Child Welfare

3 expansion items build upon executive and legislative investments of child welfare, adding \$9.4 million.

	Child Fatality Reviews	Strengthened Oversight & Accountability of County Child Welfare Services	Federal Improvement Plan	Total New Investment
Requirements	\$412,791	\$1,046,879	\$10,697,323	\$12,156,993
Receipts	309,593	343,300	2,097,323	2,750,216
Appropriations	\$101,098	\$703,579	\$8,600,000	\$9,406,777
FTE	5.00	15.00	3.00	23.00



NC Pre-K

NC Pre-K funds high quality pre-kindergarten services in approved sites statewide for at-risk four year olds.

The Governor's Recommended Budget invests an additional \$4.0 million in lottery receipts for up to 800 new Pre-K slots.

	2016-17 Enacted Budget	2016-17 Recommended Adjustment	2016-17 Revised Budget
Total Requirements	\$144,178,390	\$4,000,000	\$148,178,390
Receipts	\$91,286,091	\$4,000,000	\$95,286,091
Appropriations	\$52,892,299	\$0	\$52,892,299
Pre-K Slots	28,836	800	29,636

**Assumes \$5,000 per slot*

Access to Health Care

Medical Education, \$3.5 million

- The General Assembly eliminated Graduate Medical Expense (GME) reimbursement as add on to the Medicaid DRG hospital payment rate; required DHHS submit alternative funding options (March 1, 2016)
- According to DHHS, 72 counties either by geography or population qualify as Health Provider Shortage Areas; less than ½ of residents remain in state, very small percentage in primary care
- Recommended investment through the Office of Rural Health to address physician workforce shortages in primary care, general surgery, and psychiatry; DHHS proposes funding to support rural residency programs



Medicaid 2016-17 Recommended Budget

	2016-17 Enacted Budget	2016-17 Recommended Adjustment	2016-17 Revised Budget	2016-17 Percent Change
Total Requirements	\$14,896,932,911	(\$609,559,787)	\$14,287,373,124	(4.09%)
Receipts	\$10,980,695,639	(\$301,633,886)	\$10,679,061,753	(2.75%)
Appropriations	\$3,916,237,272	(\$307,925,901)	\$3,608,311,371	(7.86%)
Positions	400.51	45.00	445.51	11.24%

Expanding Medicaid Services

- \$3.0 million to expand CAP-DA slots by 320
- \$2.6 million to expand CAP-DD slots by 250

Investing in Program Performance

- \$2.0 million to retain and train the Medicaid workforce, and \$2.0 million to add critical Medicaid personnel for transition to Division of Health Benefits (45.00 FTE)
- \$1.0 million to continue Medicaid transformation at the Division of Health Benefits

Updating the Medicaid Forecast

- Returns \$318.6 million in state General Funds through the Medicaid “Rebase”



What is the Medicaid “Rebase”

- An adjustment to the enacted Medicaid budget, representing the change in funding needed to continue the Medicaid program “as is”
- Factors taken into consideration in developing the forecast include changes in enrollment, anticipated costs per recipient, and utilization of services, as well as federal matching funds
- The forecast is then compared to the enacted budget to determine the Medicaid “rebase” amount for a particular state fiscal year
- Rebase applies to Medicaid payment funds. It does not apply to administrative funds

GOVERNOR’S RECOMMENDED BUDGET

Rebase estimates included in the Governor’s Recommended Budget are based on forecasting and analysis by the Department of Health and Human Services using actual expenditures through February 29, 2016, and enrollment data through March 31, 2016.

(The enacted 2016-17 Medicaid budget is based on the Medicaid forecast as of August 2015)

Medicaid Context

Over the past 3 years, North Carolina has invested just over \$1.0 billion in the Medicaid program.

- 2012-13 Budget = \$2,907,276,302 (2011-13 Biennial Budget)
- 2016-17 Enacted Budget: \$3,916,237,272
- Medicaid Risk Reserve: \$186,372,673 (created in 2013-14)

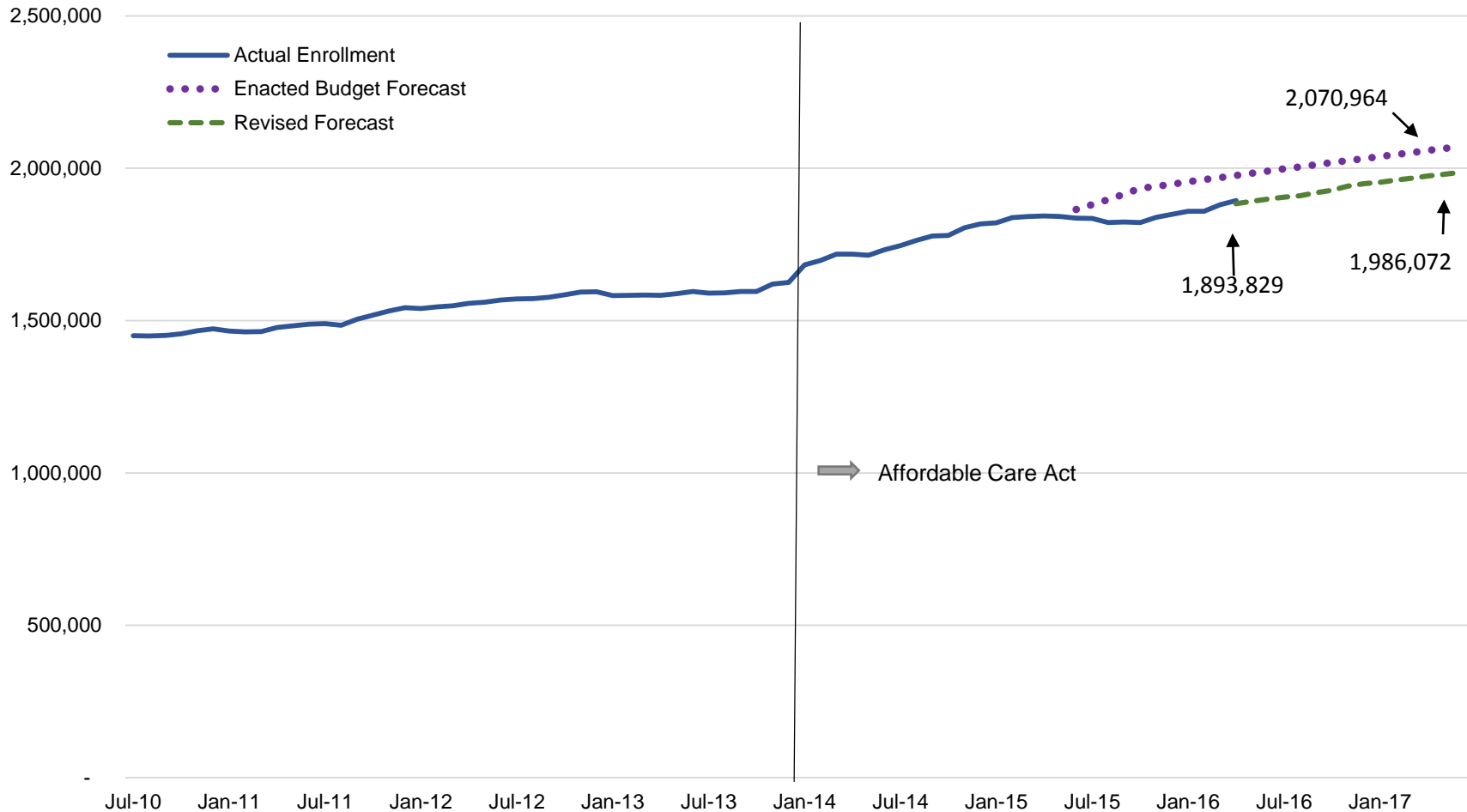


Medicaid “Rebase” FY 2016-17 Budget Adjustment

Rebased Funds	Change in Total Requirements	Change in Receipts	Change in State Appropriation
<i>Claims (1310)</i>	(661,252,849)	(436,794,818)	(224,458,031)
<i>CCNC (1311)</i>	2,893,859	4,972,983	(2,079,124)
<i>Cost Settlements (1320)</i>	46,155,704	62,939,586	(16,783,882)
<i>Adjustments (1330)</i>	(48,671,284)	(34,035,459)	(14,635,825)
<i>Rebates (1331)</i>	(75,551,790)	(36,223,148)	(39,328,642)
<i>Supplemental Payments (1337)</i>	99,933,088	121,228,856	(21,295,768)
Total “Rebase” Estimate	(\$636,493,272)	(\$317,912,000)	(\$318,581,272)

- The rebase estimate returns \$318.5 million in state General Funds. A major variable is lower than budgeted overall enrollment, producing a lower than budgeted cost estimate for Claims payments (state share \$224.5M). The remaining five funds/payment categories make up the balance.

Total Medicaid Enrollment Forecast

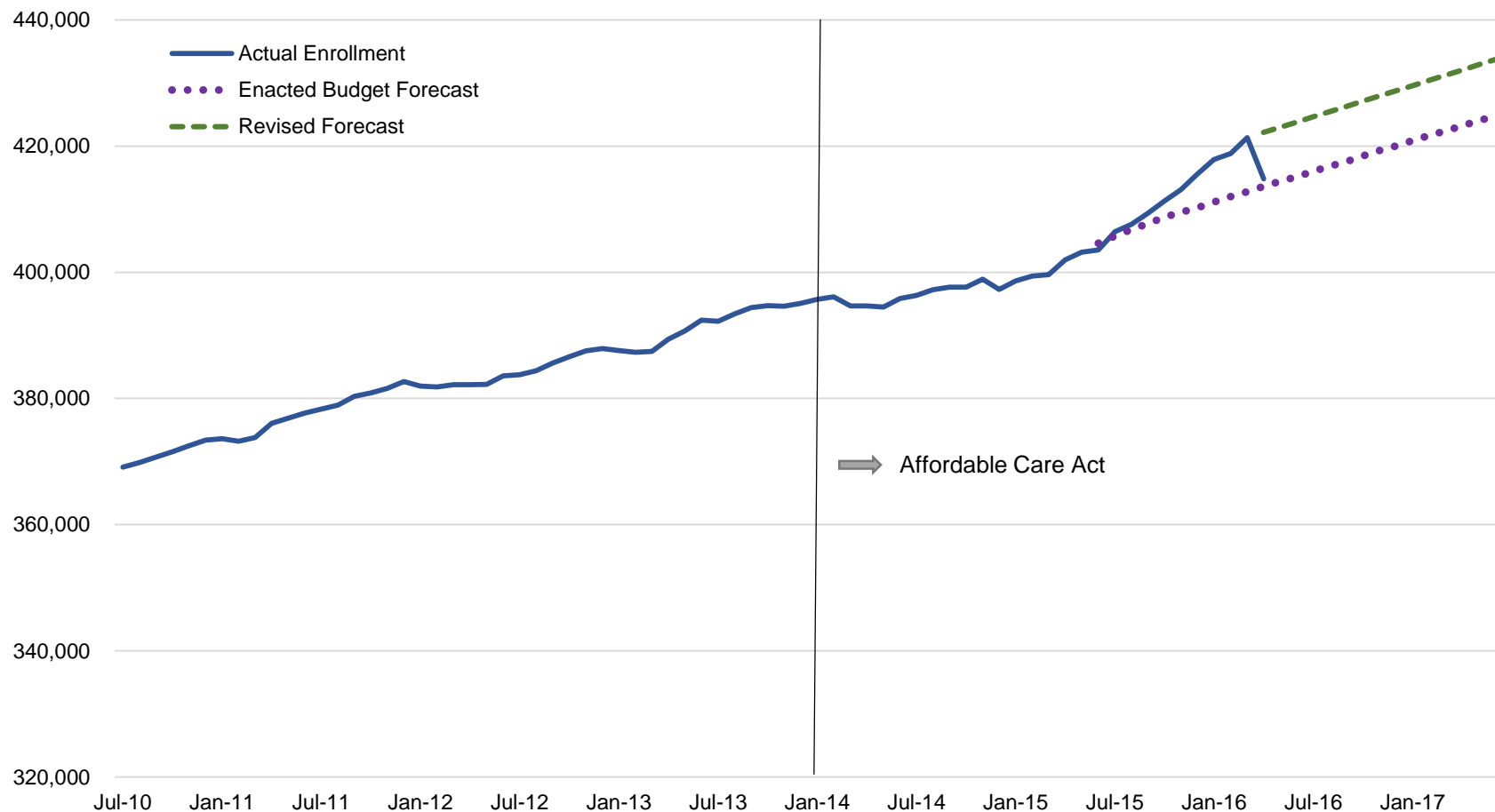


Source: DMA Enrollment Data and Forecast; Actual Enrollment through April 2016, Revised Forecast used data through March 2016



Enrollment is the largest driver of Medicaid service expenditures.

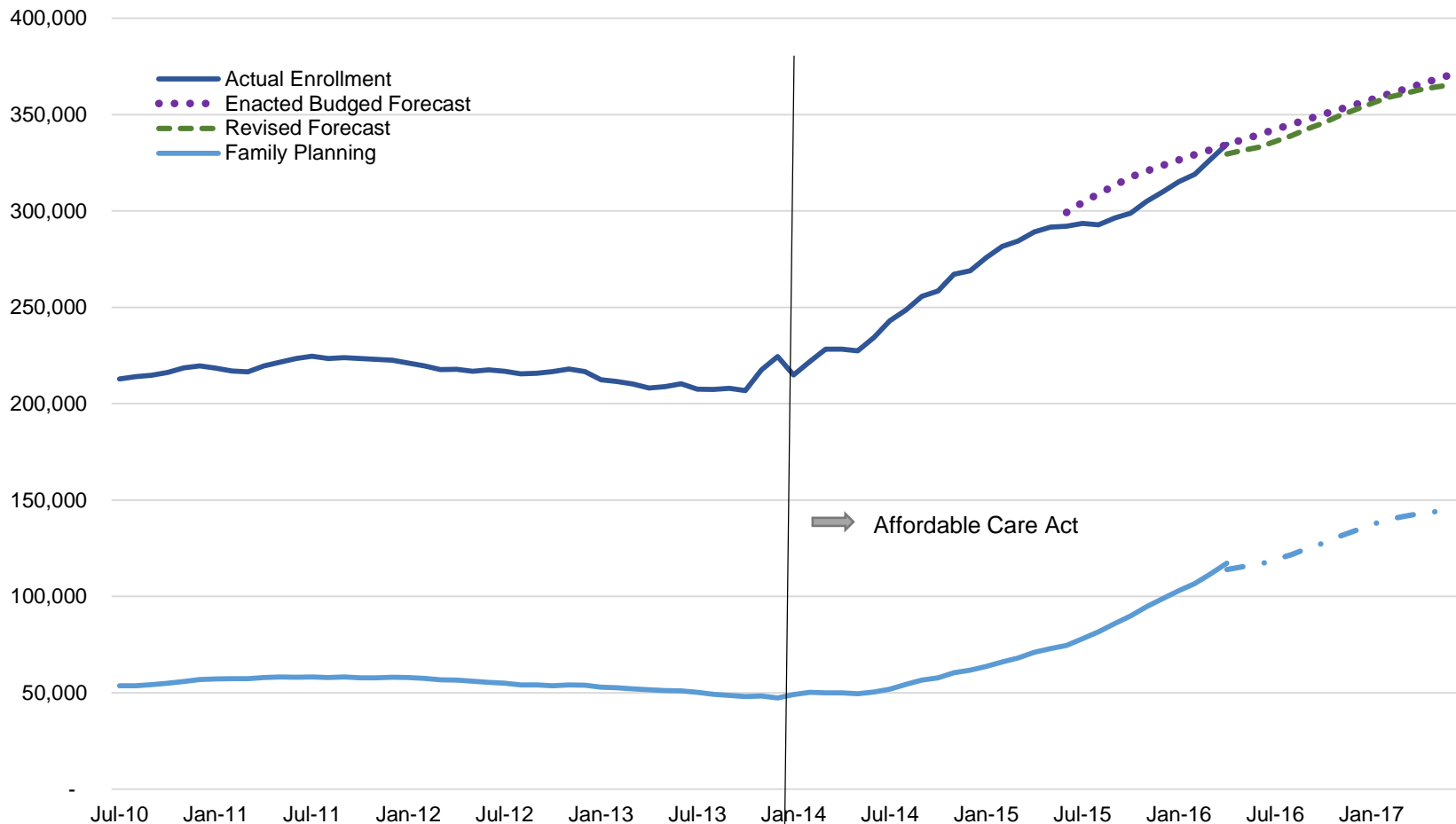
Medicaid Enrollment Forecast: Aged, Blind, Disabled



Source: DMA Enrollment Data and Forecast; Actual Enrollment through April 2016, Revised Forecast used data through March 2016



Medicaid Enrollment Forecast: Adults

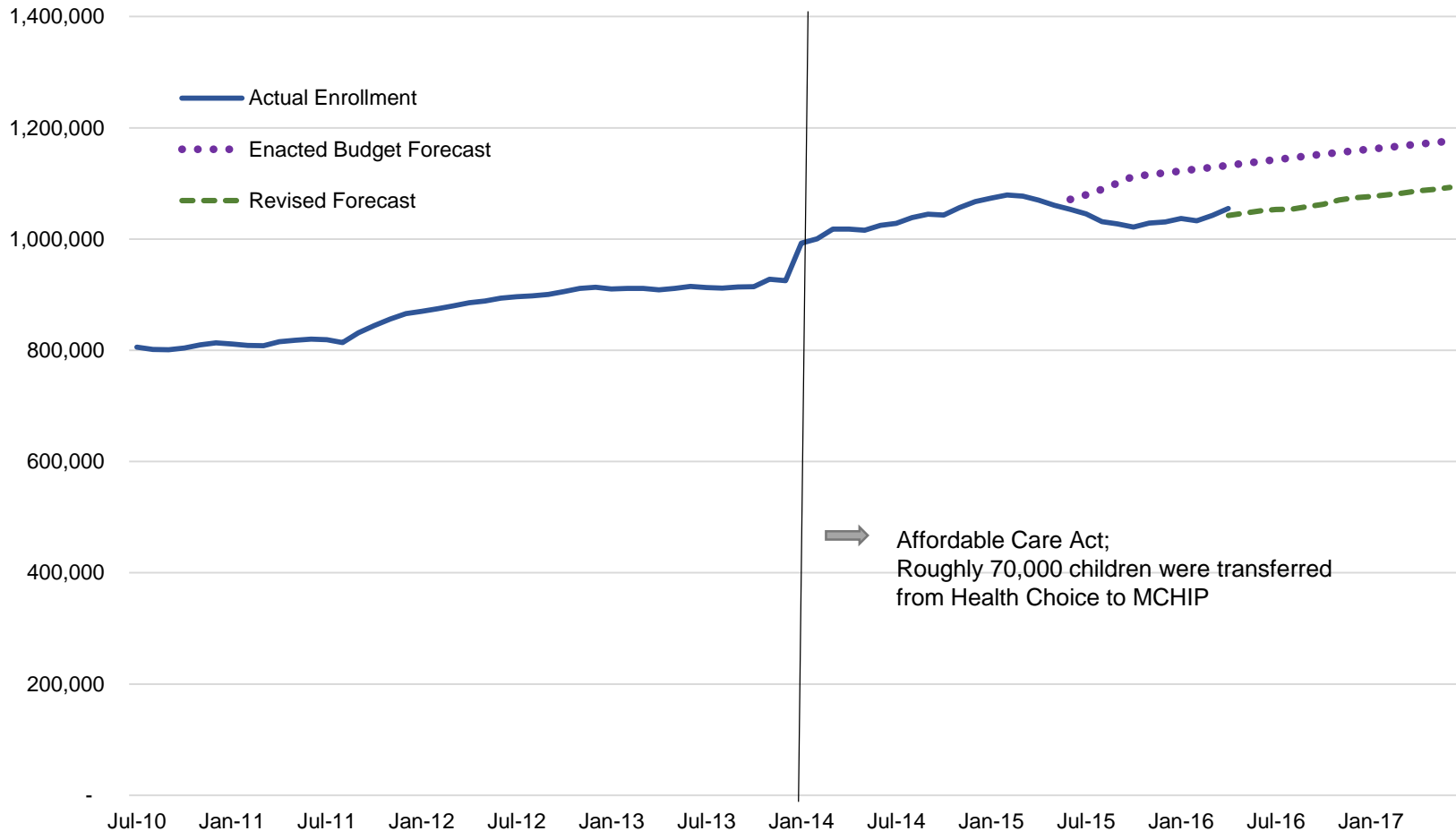


*Adults includes Medicaid for Pregnant Women, AFDC Over 20, Breast and Cervical Cancer, and Family Planning

Source: DMA Enrollment Data and Forecast; Actual Enrollment through April 2016, Revised Forecast used data through March 2016



Medicaid Enrollment Forecast: Children



*Children includes Medicaid for Infants and Children, AFDC Under 21, MCHIP, and Other Child (largely Foster Care children)
Source: DMA Enrollment Data and Forecast; Actual Enrollment through April 2016, Revised Forecast used data through March 2016

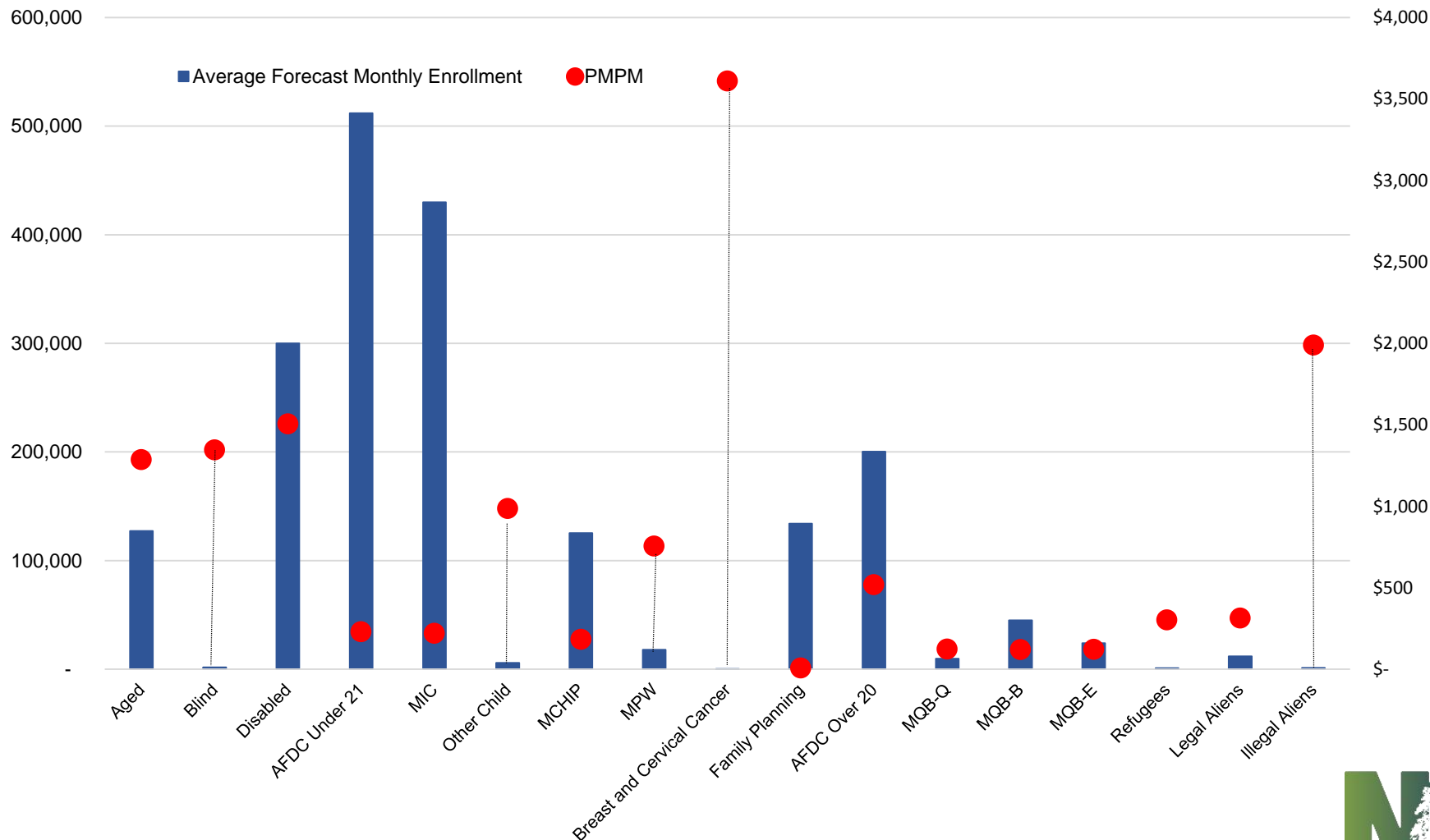


Quantifying Changes: Forecast to Forecast Comparison - Fund 1310 (Claims)

<u>Factors:</u>	<u>Change (in state appropriations):</u>
FMAP Rate Changes	(\$102,752,292)
Enrollment	(80,035,442)
Medicare Part D	45,664,587
Pharmacy Drug Spend	(27,939,047)
Medicare Part B Buy-ins	17,064,360
Decrease in Non-Federal Receipts	14,978,410
HMO Account	(5,841,988)
Medicare Part A	(3,974,196)
Interaction between Enrollment and FMAP changes	1,948,288
Non Emergency Medical Transport (NEMT)	1,190,158
Sum of Explicit Factors	(139,697,161)
<i>Remaining Cost/Utilization Changes</i>	<i>(75,944,549)</i>

Represents approximately \$215 million in state appropriations change.

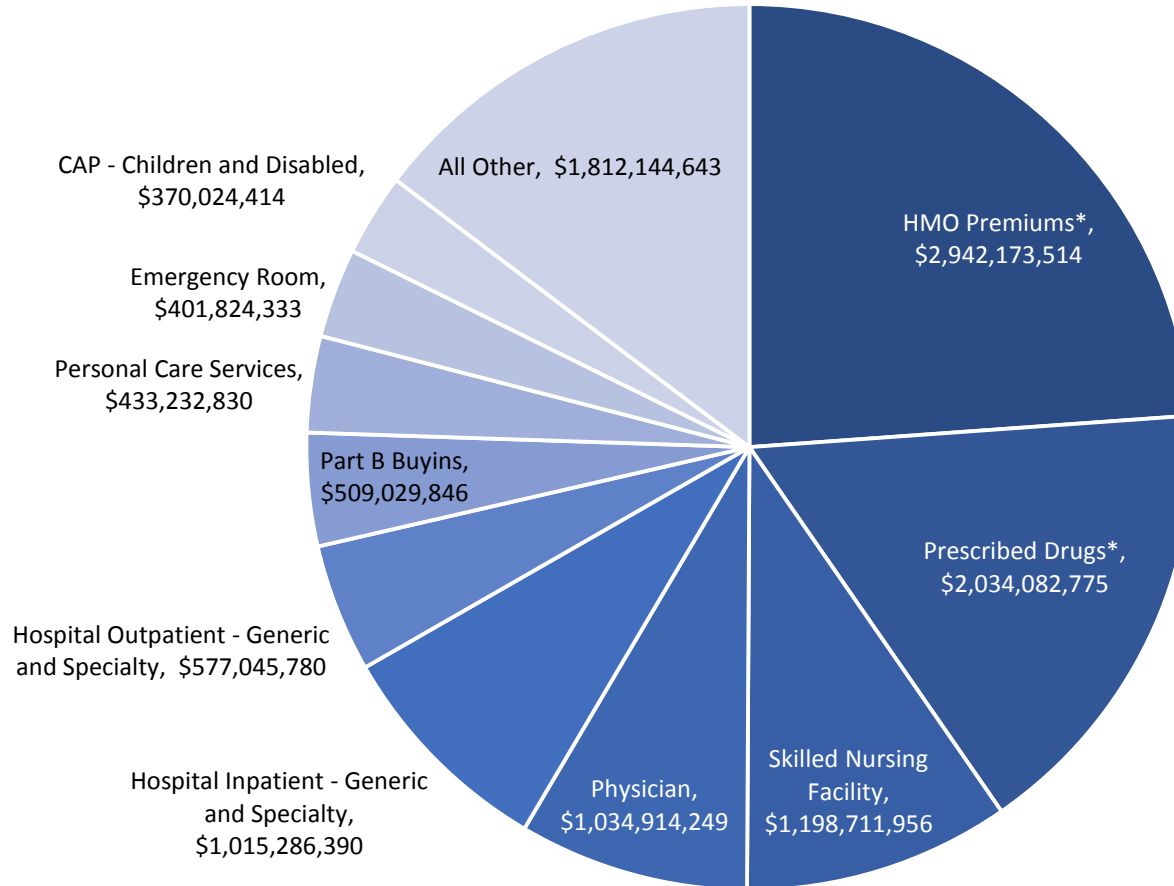
Who Medicaid Serves, By Program Aid Category



Source: DMA enrollment forecast for SFY17; PMPM calculated by OSBM using Program Expenditure Report data, Buy-in data, and actual enrollment from July 2015 - March 2016.

Who Medicaid Pays, By Category of Service

SFY 2017 Forecast: Fund 1310



Source: DMA Forecast

*HMO Premiums can be subdivided into \$76 million for PACE, \$125 million for Imaging, and \$2.7 billion for LME/MCOs. Prescribed Drugs is associated with \$1.2 billion in rebates in Fund 1331, which would lead to a net Prescribed Drug Forecast of \$846 million.



SUMMARY:

DHHS Revised Recommended 2016-17 Budget

	2016-17 Enacted Budget	2016-17 Recommended Adjustment	2016-17 Revised Budget	2016-17 Percent Change
Total Requirements	\$20,169,173,124	(\$509,902,781)	\$19,659,270,343	(2.53%)
Receipts	\$14,901,577,516	(\$286,001,822)	\$14,615,575,694	(1.92%)
Appropriations	\$5,267,595,608	(\$233,900,959)	\$5,043,694,649	(4.25%)
Positions	17,039.79	123.00	17,162.79	0.72%

Refines the DHHS base budget for enrollment driven programs and invests in shared mental health, public health, child welfare and Medicaid service priorities



Questions

For additional information and a complete inventory of all budget recommendations, please refer to:

The Governor's Recommended Budget
Pat McCrory
Governor
2016-17

and/or

Visit osbm.nc.gov

